
MAINE STEP-UP PROGRAM AGREEMENT

Leadership Track

ZF Lemforder Corporation

PURPOSE

The greatest human imperative of the 21st century will be using earth's resources in sustainable ways to meet human needs and protect the diversity of our ecosystems. Through its own natural cycles, the earth provides clean water and air, fertile soils and a myriad of plants and animals, all of which are essential to sustain life. We must find ways of producing products and providing services that model nature's cyclical design and sustain its productive capacities. In addition, where we can we must restore those capacities diminished by past misuse.

Environmental regulatory programs of the last 30 years have done much to clean and protect our waters, air and land. Now, new approaches to environmental protection are needed if continuous improvements are to be realized.

The Maine Department of Environmental Protection and ZF Lemforder Corporation have agreed to explore new ways of protecting the environment that go beyond regulatory compliance. ZF Lemforder Corporation commits to continually improve its business practices to protect people and the environment. ZF Lemforder Corporation will publicly report on its progress to inspire other businesses to seek improvement in their own environmental performance.

The Maine Department of Environmental Protection commits to vigorously assist ZF Lemforder Corporation on its "climb up the mountain" – accepting the challenge - to find sustainability set forth in Section 2. B. in this agreement are for the "Pathways" described in the "Climbing the Mountain" diagram found in the Department's A Guide for Your Business: Smart Production and the Maine STEP-UP Program.

1. INTRODUCTION

Lemforder Metallwaren, (LM) a privately-owned German based company, has manufactured automotive components, such as tie rods, axle links, suspension joints, and steering shafts in the European market for over fifty years. LM established Lemforder Corporation in Brewer, Maine on July 1, 1980, to manufacture product for the North American marketplace.

The Lemforder Metallwaren companies became a part of Zahnradfabrik Friedrichshafen, AG (ZF) in 1984. ZF is a manufacturer of transmissions, axles and steering systems for almost any application: car, truck, agriculture, construction, industrial, marine, air, and special applications. ZF is well positioned in the world market with facilities in every automotive producing country in the world.

In 1994, Lemforder expanded its interests in the United States to include rubber-to-metal processing, and steering and suspension systems with sites in Kentucky and South Carolina. In late 1999, new facilities in Michigan and Kentucky joined the Lemforder team. Development in these areas, as well as current steering and suspension products, has secured Lemforder's position as a world leader.

In April 2000, in an effort to demonstrate the affiliation of automotive industry leaders, Lemforder and ZF, the company name changed to ZF Lemforder Corporation.

In the past seven years, despite a steady increase in business, ZF Lemforder Corporation has managed to, not only keep up with the continuous demands of environmental compliance, but has far exceeded those expectations by significantly reducing its real and potential impact on the environment. Through toxics reduction, recycling and the implementation of an ISO 14001 certified EMS program, ZF Lemforder Corporation has already placed itself well on the pathway to sustainability.

ZF Lemforder Corporation in partnership with the Department of Environmental Protection agrees to participate in the Step-Up program for a 5-year term. To fulfill this agreement ZF Lemforder Corporation, F-Brewer Division pledges to incorporate the principles of Smart Production into its processes with the goal of achieving sustainability and reducing the environmental impact of its processes. The Department of Environmental Protection in turn will assist ZF Lemforder Corporation in attaining these goals by providing technical assistance and recognition for the participation in and the achievement of Smart Production.

2. PERFORMANCE COMMITMENTS

A. Environmental Business Practices.

Compliance Status – ZF Lemforder Corporation is committed to continually improving its environmental performance by going above and beyond regulatory requirements. As part of the Environmental Management System (EMS), ZF Lemforder Corporation provides a means to monitor compliance with most recent laws, regulations and all other requirements. ZF Lemforder Corporation requires permits or licenses for the following activities:

- Sanitary and cooling tower wastewater discharge to the Brewer Water Pollution Control Facility - Brewer Wastewater Permit (37-2679-04)
- Storm water discharge – NPDES multi-sector storm water general permit (MER05A053)
- Small quantity generator of hazardous waste, consisting primarily of aerosol cans and non process liquid waste – EPA Generator ID (MED03771441)

EMS Program – ZF Lemforder Corporation's Environmental Management System establishes a structure to control the environmental impact of its activities, processes and products. ZF Lemforder Corporation has established environmental management procedures to identify environmental impacts and aspects, set and track objectives and targets and establish methods to evaluate the effectiveness of the system. Originally certified ISO 14001 compliant in September of 1999, ZF Lemforder Corporation has successfully passed six periodic audits.

Worker and Community Pathway –

All ZF Lemforder Corporation employees receive ongoing environmental awareness training adapted to reflect new processes or process changes. Elements of the training program include the importance of adherence to the environmental policy and its guidelines, the status of on-going environmental programs, responsibility to the community and the importance of complying with ISO 14001 and applicable laws and regulations.

Employees have several venues for voicing concerns. A cross-functional Safety and Environmental Committee meets monthly to address employee suggestions and review the status of environmental objectives. In addition, the Ergonomics Committee and representatives of our Zero Accident Culture Team constantly monitor safety issues throughout the plant and initiate corrective actions where required.

ZF Lemforder Corporation will conduct public advisory committee meetings with residents, businesses and local government officials. The meetings will provide a forum to review Step-Up goals and an arena for community feedback. The Department of Environmental will assist ZF Lemforder Corporation in organizing meetings.

B. Sustainability Goals.

Energy Pathway – ZF Lemforder Corporation is committed to reducing energy consumption by increasing efficiency of its operations. Process efficiency continues to be a high level business measure and is monitored monthly in kilowatt hours per part produced. ZF Lemforder has established a Step-Up goal of a 10% reduction in kilowatt hours per part produced from the 2003 baseline. This 10% reduction objective will be completed by 1/1/2007.

Solid Waste – In 1996, ZF Lemforder Corporation eliminated hazardous waste from its process by replacing the electrostatic wet paint system with a powder coating finishing system. The facility now

operates a self-contained closed loop system with no solid or liquid hazardous waste, no Hazardous chemical emissions and zero hazardous effluent discharges.

ZF Lemforder Corporation is committed to improving its processes by reducing and recycling waste. Significant strides have been made through waste plastic and metal recycling efforts. Solid waste reduction is a key business metric and is monitored monthly in tons on solid waste per part produced. ZF Lemforder has established a Step-Up goal of a 10% reduction in solid waste per part produced from the 2003 baseline. This 10% reduction objective will be completed by 1/1/2007.

Toxics – As with any manufacturer, we are ultimately responsible for the quality and durability of our products. This point is especially crucial in the manufacturing of safety critical parts for the automotive industry. Material that comprises the majority of our products has to meet strict guidelines for both strength and durability. All parts that we produce go through extensive environmental testing, and are required to retain their integrity in excess of 100,000 miles. A significant portion of the raw metals we receive from our vendors is machined prior to assembly. We require our suppliers deliver their products in such a way as to permit us to remove the minimal amount of material to achieve the precise specifications required by our customers. The majority of the components that go into our final product are recyclable and we are currently in the process of reviewing and investigating product composition with the goal of eliminating any toxic constituent.

In 2000, the European Union launched the “End of Life” Vehicle Directive (ELV), which requires suppliers to declare the content of all parts supplied to automotive manufacturers before vehicles may be shredded or land-filled. American automobile manufacturers have been quick to follow suit and are also requiring this information from domestic suppliers. As a result, ZF Lemforder Corporation is replacing compounds which, when present in significant amounts as in an assembled automobile, may pose environmental risks.

In addition to ZF Lemforder Corporation’s products, its processes are continuously evaluated for improvement opportunities. ZF Lemforder

Corporation was awarded the ZF North American Operations Total Quality Management Award in 1997 for toxic and hazardous waste reduction for implementing the powder coating finishing system. This project improved the work environment, saved money and reduced adverse environmental impacts. Powder coating has eliminated 15,000 pounds of liquid and solid paint waste and 20,000 pounds of zinc contaminated waste coolant, saving approximately \$150,000 per year.

Currently the facility is reducing toxics and hazardous waste generation by finding alternatives to aerosol products. ZF Lemforder has established a Step-Up goal of a 50% reduction in aerosol cans purchased from the 2003 baseline. This 50% reduction objective will be completed by 1/1/2007.

C. Measurement Methods.

ZF Lemforder Corporation utilizes Business Operating System (BOS) charts to track performance indicators, establish action items and summarize progress toward accomplishing Step-Up goals. Current and newly established Step-Up goals will be tracked on a monthly basis and communicated to all employees and interested parties.

D. Public Involvement.

ZF Lemforder Corporation fosters small business success through environmental performance by participating in the Maine State Compliance Advisory Panel (CAP). CAPs serve as an information bridge between small businesses and state environmental programs. Ruth Lane, Human Resource Manager has been a CAP member since 1997 and chair person since 2000.

ZF Lemforder Corporation fosters public involvement through feedback communications and the Intranet-based Environmental Reporting and Information System (ERIS). Annually, all ZF locations world wide report environmental performance data and communicate major environmental measures implemented during the reporting year. For more information, visit www.zf.com, click on Facts & Figures and then go to the Environmental section.

E. Mentoring.

Through educational programs at the University of Maine, Department of Environmental Protection and New England Board of Higher Education Environmental Internship Program, ZF Lemforder Corporation is an active mentor within the community. ZF Lemforder Corporation has begun spreading its vision of continual improvement and environmental excellence to the customer base. In June of 2003, a Supplier Symposium was held at ZF Lemforder Corporation focusing on process improvements and the benefits of an Environmental Management System.

ZF Lemforder Corporation agrees to share its environmental experiences and challenges and will make itself available to all parties interested in the STEP-UP Program.

F. Relationship.

ZF Lemforder Corporation will work closely with the DEP to achieve its Step-Up goals by identifying specific regulatory issues that stand in the way of achieving goals and work to find mutually agreeable solutions.

1. The DEP's STEP-UP Program Contact will attend regularly scheduled meetings to discuss progress toward achieving Step-Up goals.
2. The DEP will continue to provide technical and regulatory assistance.

G. Recognition.

The DEP will recognize ZF Lemforder Corporation's participation in the STEP-UP Program by including specific information on the Smart Production/Step-Up Web Page maintained by the State, and in press releases from time-to-time to keep the general public informed of ZF Lemforder Corporation's status in the program. ZF Lemforder

Corporation will also receive a Governor's Award for Environmental Excellence without the need for application when any goal detailed in this agreement is achieved.

3. REPORTING

ZF Lemforder Corporation will submit quarterly progress reports to the Maine DEP citing accomplishments toward achieving environmental goals. The Maine DEP will report quarterly to ZF Lemforder Corporation on its progress toward meeting its commitments.

4. TERMINATION

Either party to this Agreement may terminate the participation of ZF Lemforder Corporation in the Step-Up Program with 30-days notice to the other party.